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CIA TREA arrangement letter dtd 4/11/08.

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THE WHITE HOUSE
WASHINGTON

CONFIDENTIAL

CABINET AFFAIRS STAFFING MEMORANDUM

DATE: 4/30/82 NUMBER: 068922CA DUE BY: -----
SUBJECT: CABINET COUNCIL ON ECONOMIC AFFAIRS -- May 3 Meeting (#1)

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Clark	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Harper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Gray	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Mike Wheeler	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Larry Kudlow	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCCT/Kass	<input type="checkbox"/>	<input type="checkbox"/>
CEQ	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input checked="" type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

The Cabinet Council on Economic Affairs will meet on Monday, May 3, at 8:45 AM in the Roosevelt Room. The agenda and papers are attached.

TREA has not reviewed. Processed IAW CIA
TREA arrangement letter dtd 4/11/08.

State Dept. review
completed

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☒ Becky Norton Dunlop
Director, Office of
Cabinet Affairs
456-2800

THE WHITE HOUSE
WASHINGTON

April 30, 1982

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER *RBP*
SUBJECT: Agenda and Papers for the May 3 Meeting

The agenda and papers for the Monday, May 3 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The Council will review preparations for the Versailles Economic Summit. Four papers have been prepared for the Council's consideration.

The first is a "Report on the Preparatory Meeting for the Versailles Summit," prepared by Assistant Secretary of State Robert Hormats, who serves as the Personal Representative of the President to the Versailles Summit.

The second is a paper on "Trade Objectives and Strategy," prepared by the Office of the U.S. Trade Representative.

The third is a paper on "East-West Economic Relations at the Summit," prepared by the Department of State.

The fourth is a set of papers on "Macroeconomics and International Monetary Issues," Beryl Sprinkel, Under Secretary of the Treasury for Monetary Affairs.

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Attachment

THE WHITE HOUSE
WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

May 3, 1982

8:45 a.m.

Roosevelt Room

AGENDA

1. Versailles Summit Issues (CM#234)



DEPARTMENT OF STATE

Washington, D.C. 20520

29 APR 1982

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TO: Cabinet Council on Economic Affairs

FROM: Robert D. Hormats *RDH*

SUBJECT: Report on Preparatory Meeting for Versailles Summit

Last weekend's preparatory meeting (attended by Beryl Sprinkel, Henry Nau and myself) provided an opportunity for an active exchange of views, and some narrowing of differences, on the key subjects: macroeconomic policy, trade, East-West economic relations, North/South issues, energy, and technology.

The discussion of macroeconomic issues centered on our desire to strengthen policy coordination among Summit countries to attain greater monetary and fiscal discipline. The French, following the presentation by Beryl, suggested a number of ideas which are not too different from our own. The French and other Europeans want a greater amount of exchange rate intervention than we, but are willing to accept the notion that such intervention should not be in opposition to fundamental market forces. They also recognize that underlying economic circumstances are the major factors influencing exchange rate movements. We were able to convey the notion that we understand the impact of exchange rate movements on European economies (particularly on trade and investment) but that except in a limited number of circumstances, intervention would not be effective in avoiding such movements. If played right, we can obtain agreement on policy convergence among major countries which will focus on reducing inflation and stimulating sound real growth. Beryl will take the lead in following up with his counterparts. A potentially historic agreement, which can lead to less divergencies and friction among economies, is a distinct possibility.

On trade, we laid out very clearly the major importance we attach to improvements in the international trading system, and to major progress at the Summit and the GATT Ministerial in setting priorities aimed at such improvements. We stressed that a strong Summit endorsement of the GATT and progress in a few priority areas were essential to preserve the openness and effectiveness of the international trading system. The Europeans were more cautious and inward looking; they feel that we are perhaps too ambitious and desire to maintain latitude to

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pursue somewhat more restrictive policies. Japan was more supportive of our broad objectives. Both we and the Europeans stressed the importance of Japan coming up with a dramatic trade package before the Summit. We are going to have to work hard to get what we want on trade at Versailles. Bill Brock will be meeting on a specific strategy leading toward a consensus at the OECD Ministerial, a more explicit focus on a few priority issues at the Quadrilateral meeting of the EC, Japanese, Canadian and U.S. Trade Ministers leading toward specific commitments at Versailles itself.

On East-West economic issues, the French were concerned that we wanted to turn this into an East-West summit. We stressed that this was not the case, but that we insisted that this was an important issue. If agreement to limit credits, guarantees and subsidies to the Soviet Union, as well as to a mechanism for monitoring compliance, had not been agreed before Versailles, we would be pushing hard for it at the Summit itself. This subject will be next discussed by Jim Buckley and his colleagues on May 14. On the base of that discussion we can draft language for the Versailles declaration.

On North/South issues, the other Summit countries, with varying degrees of enthusiasm, thought that a positive outcome on global negotiations was needed at Versailles to keep faith with our commitments made at Ottawa and Cancun. But all stressed the importance of protecting the specialized agencies. We stressed that any outcome at Versailles would have to be crystal clear on this point. The French also stressed the importance of agreement on the Energy Affiliate, but got only lukewarm support. We stressed the need to work in GATT with newly industrialized countries such as Brazil and Korea to enable them to share greater responsibilities and benefits in the international trading system. We and others also pointed to the need to be of greater assistance to the developing countries to increase food production. The Canadians may well come up with suggestions for resolving differences on global negotiations between now and the Summit. We will also need to go back to the President with any new ideas we have prior to Versailles.

On energy, virtually everyone stressed the importance of avoiding complacency in the current soft market. We strongly suggested that greater energy cooperation among developed countries was necessary to ensure energy security against supply interruptions. We stressed that this was not just an East-West issue, but made good economic sense in light of dependence on energy supplies from unreliable areas of the world. Nothing dramatic is likely to happen in this area, but strong Summit language on cooperation and avoidance of complacency is needed.

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On technology, President Mitterrand will present a paper at the beginning of the meeting laying out his view of the impact of technology on Western economies, potential risks and benefits, and recommendations. We stressed that a) the American economy had created millions of new jobs as a result of innovation and competition in the high technology area, and b) a sound domestic economic environment, as opposed to government guidance or intervention, was the major factor in ensuring a vigorous increase in technology industries and new jobs. We see this discussion as an opportunity for the President to stress the need to avoid over-regulation and to permit positive adjustment to take place; it is also a chance to stress the fact that many companies are themselves getting together to do joint research and production, and that while governments should encourage this, they need not force such things to happen. The French, however, may have a much more ambitious plan involving a substantial amount of government intervention. We and other Summit participants stressed that we would find this inconsistent with our own approach, and insisted that we see in advance the key elements of the French paper. The French will send someone over here to explain it to us next week.

Communique

The French unveiled some preliminary ideas for the Communique at one of the lunches for the Personal Representatives. The key virtue of the text is that it was one page in length. There were a number of problems which I and others addressed very bluntly and pointedly. Nevertheless, it is almost certain that the initial draft of the Declaration will be strongly oriented toward the French position. We will have to be assertive in pulling the French back toward a position which we, and others who do not go along with the French ideas in some areas, can accept. We will get the French draft within the next ten days and will go over it with the senior White House group in order to reach agreement on alternative language.

Drafted: EB:RDHormats:meh
4/29/82:20396

Versailles Summit

Trade Objectives and Strategy

Objectives

The U.S. looks to the Summit to reaffirm the notion that there are economic opportunities and mutual gains from trade and to set directions for work in the GATT on key trade issues for the 1980s, including (1) improvement of existing rules on safeguards, agriculture, and dispute settlement; and (2) initiation of studies that would provide the analytical groundwork for new multilateral negotiations covering barriers to services, trade distorting investment practices, and trade in high-technology goods.

The U.S. also seeks political support for a major initiative aimed at liberalizing trade between developed and developing countries. The centerpiece would be a proposal for a round of trade negotiations with the advanced developing countries. Special tariff rates would be offered to GSP graduates in return for liberalization of the LDCs own trade regimes.

The U.S. should deflect European criticism of possible U.S. remedial measures in steel and agriculture by shifting the focus to a discussion of long-term adjustment problems. Special efforts should be made to get the Europeans off their preoccupation with short-run economic problems and to focus on initiatives that will help them adjust to increasing international competition and technological change.

The U.S., along with Europe and Canada, could use the Summit to encourage Japan to take additional steps to open up its closed market. While Summits have never been viewed as appropriate occasions to center criticisms around one country, we should be prepared to speak frankly and constructively to the Japanese about their continued inaction to remove import barriers, especially if they fail to produce anything of consequence between now and the Summit.

Strategy

We should capitalize on three events within the next month that can lay the groundwork for meaningful trade achievements at the Summit. These are:

(1) OECD Ministerial. Secretary-General van Lennep's action proposals on trade issues of the 1980s cover the key trade issues we would like to see addressed in the GATT Ministerial. We are aiming to have the substance of that report reflected in the Communique. We are also aiming to have Ambassador Brock

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lay out U.S. proposals for new negotiations with developing countries that have graduated out of GSP. We would expect that this could begin a more intensive, political-level discussion among the developed countries as to the desirability of furthering such an effort in the GATT. Assuming there is a general consensus that the LDC initiative is a worthwhile effort among Ministers, we would want to have it addressed at Versailles.

(2) Second Quadrilateral. Coming on the heels of the OECD Ministerial, the Quadrilateral is an excellent opportunity to establish an initial consensus on what we can achieve at the Summit in trade. If possible, this occasion should be used to work out agreed upon language that would constitute the trade portion of the Summit Communique.

(3) May preparation of GATT Ministerial. This meeting could be decisive in establishing the final elements of the agenda for the GATT Ministerial. If a consensus emerges (short of a final agreement) on the Ministerial agenda, we would be able to more positively endorse in the Summit discussion and Communique the agreements that have been reached by the Preparatory Committee in Geneva.



DEPARTMENT OF STATE

Washington, D.C. 20520

29 APR 1982

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TO: Members, Cabinet Council on Economic Affairs

FROM: Robert D. Hormats

SUBJECT: East-West Economic Relations at the Summit

We want to make East-West economic issues an important part of the President's presentation at Versailles.

First, we want to build on the very positive results of last year's discussion in Ottawa by having the leaders endorse the achievements of the COCOM High Level meeting (which took place as a result of Ottawa) and to secure a commitment to pursue actively the recommendations of that meeting. The President would stress the importance of COCOM review activities, the problem of diversion of embargoed products through non-COCOM countries, effective harmonization of national export control procedures, and modernizing the COCOM apparatus. We would aim for another high level meeting in 1983 to review progress.

Second, depending on events in Poland, we would stress the importance of continued Western cooperation in implementing agreed sanctions, and the need for continued coordination should the situation deteriorate.

Third, and most important, we would stress the need for controls on Western credits and guarantees to the Soviet Union, to a cessation of subsidies, and to a monitoring mechanism, in order to ensure that Western nations do not relieve the Soviets, through government financial support, of the need to make tough decisions should the Soviets continue their military build-up. Jim Buckley is pursuing these objectives with his colleagues. Should agreement not be reached before the Summit, we would press for agreement at Versailles. We would also discuss other export control issues, including those relating to energy, in a way which supports these objectives.

Fourth, we would raise our concerns over counter-trade (bilateral trade agreements) which are a Soviet alternative to hard currency financing.

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THE UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS

WASHINGTON, D.C. 20220

CM#234

April 30, 1982

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: Beryl W. Sprinkel



SUBJECT: Versailles Summit Issues

Attached are two papers on "Macroeconomics and International Monetary Issues" and "Differentiated Strategy" which will serve as background for our May 3 meeting on Summit issues.

Attachments

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(Entire Text)

4/28/82

OVERVIEW: MACROECONOMICS AND INTERNATIONAL MONETARY ISSUES

I. U.S. OBJECTIVES AND INITIATIVES

Principal U.S. Objective

-- To obtain a commitment to a coordinated long-term policy approach, aimed at generating sustainable economic growth through price stability and the operation of market forces

Supplementary Objectives

- To quiet the chorus of foreign complaints about U.S. policies
- To express U.S. recognition of, and concern for, the economic problems faced by Summit partner countries, in place of foreign perceptions of U.S. indifference to their problems

II. BACKGROUND AND PRE-SUMMIT PREPARATION

(Updated paragraph to be supplied following OECD Ministerial and Interim Committee Meetings.)

III. OTHER COUNTRY OBJECTIVES AND STANCE ON U.S. OBJECTIVES

Again this year our Summit partners tend to blame their economic problems on U.S. policies. They continue to complain publicly -- largely for their own domestic audiences -- about the effect of large U.S. budget deficits and restrictive monetary policy on our interest rates. They argue that our high interest rates weaken their currencies and force them to follow excessively restrictive policies that postpone their recoveries. They appear to believe that the U.S. policy of non-intervention in foreign exchange markets (except in cases of severe disorder) has resulted in a higher dollar than would otherwise be the case, and in addition has contributed to increased exchange market instability. All of our Summit partners believe, at a minimum, that greater U.S. willingness to intervene, perhaps in concert with other major countries, would make exchange rates more stable. Mitterrand goes even further, calling for a return to fixed exchange rates.

The French are particularly outspoken on these points, perhaps because the markets have been especially harsh in judging French economic policies in contrast to ours. They also prefer to attack unemployment before inflation. The

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Japanese maintain that high U.S. interest rates have produced a weak yen, creating additional trade irritations. Faced with a slow economy and a large budget deficit, they have attempted to stimulate domestic recovery by easing interest rates. The other countries are primarily interested in lower U.S. interest rates, believing that they could then allow their own rates to ease and speed up their recoveries.

Much -- but not all -- of this criticism is overdrawn, and reflects in part a strategy to deflect domestic complaints about economic conditions. Some European officials were embarrassed by the spectacle of Martens, whose own country has experienced years of undisciplined fiscal policy, being sent by the EC to lecture the United States on economic policy just prior to a devaluation of the Belgian franc made necessary by the exchange market consequences of domestic policy errors.

But these complaints also reflect genuine concerns. European unemployment rates have risen to the highest point since the end of postwar reconstruction -- over 9 percent of the labor force and over 15 million persons. Some feel that U.S. interest rates could be reduced by more rapid monetary growth, forgetting that a shift to higher monetary growth would signal lack of concern about inflation and increase the inflation premium in current (already high) nominal interest rate levels.

Others, such as Schmidt, are more concerned about federal budget deficits. They view the government's competition for a limited supply of savings as the major factor driving up interest rates. The remedy prescribed is lower defense spending and a rescinding of scheduled tax cuts.

IV. DISCUSSION OF OBJECTIVES

Coordinated Long-term Policy Approach

What all countries need is a common non-inflationary long-run approach to economic policy, predicated on monetary discipline, budget discipline, and non-interference with free markets. Trade frictions and exchange rate disturbances result mainly from differences in economic policies and performance -- particularly differences on inflation. The only long-run answer to these problems is uniformly sound economic policies. We would like to get a Summit commitment to long-term policy coordination, aimed at generating sustainable economic growth through price stability and reliance on market forces.

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Talking Points

- Answers to problems lie in our own hands. Difficulties the result of inflationary and undisciplined policies pursued in past, and government distortions of market mechanism. Undoing these not quick or easy, but possible.
- Proper approach is sound non-inflationary policies -- monetary discipline, budget discipline, and non-interference with private markets. Must deal with underlying problems, not just hide symptoms.
- We should agree to take actions to achieve coordinated long-term policy approach, based on price stability and market forces. This would lessen protectionist pressures, and put us on road to sustainable economic growth. Prior commitment to this would strengthen our ability to resist domestic pressures to abandon sound policies.

Respond to Foreign Complaints about U.S. Policies

Talking Points

- We want to reduce our budget deficit and have been working with the Congress to achieve further expenditure reductions and revenue adjustments.
- When budget deficits are examined on a comparable basis (the deficit of all levels of government -- federal, state and local -- as a percent of GNP), our deficits have been lower than those of most of our Summit partners. Even in the current year, when our deficit ratio is exaggerated by our recession, we will be below all the others except Japan.
- There is no simple relation between budget deficits and interest rates. Our deficits are low in relation to the total private saving from which the financing of deficits comes. In 1981, for example, the federal deficit was only 13 percent of private saving. Probably the largest impact stems from the uncertainties surrounding our projected deficit and the resulting adverse effects on market psychology. This is causing a "risk premium" to be reflected in current interest rate levels.
- Our responsibilities as the free world's leader require that we strengthen our defense capabilities.

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- In the past our friends have told us that we needed to make strong efforts to put our house in order -- to reduce inflation and to strengthen the dollar as the main internationally held currency. Now we are doing it. Markets have contrasted our achievements with weaker performance abroad. Both the judgment of relative economic performance and international political developments like the Polish situation have led to a stronger dollar.
- We are prepared to intervene, if necessary, to counter market disorder.
- We do not believe it is possible for any government, or a group of governments, to get together to set exchange rates at levels different from those established by market forces -- the markets are just too big for that.

U.S. Recognition of Economic Problems Faced by Summit Partners Countries

Our Summit partners sometimes appear to believe that we are unconcerned about their economic problems. They do not understand that, when we reject such proposals as those for coordinated foreign exchange market intervention or expansionary monetary policies, it is not because of indifference to their concerns but rather because such policies would not be successful. That is why we believe that each country is best served by domestic policies that will combat inflation and renew long-run, sustainable, noninflationary growth.

Talking Points

- We are interested in our Summit partners' economic concerns and are ready to listen to their views.
- The greatest contribution we in the United States can make is to get our own house in order and thereby restore non-inflationary growth.

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CONFIDENTIAL**Comments on "Differentiated Strategy" Proposal
for OECD Ministerial****Assessment**

Secretary General Van Lennep's views on the world economy are more pessimistic than ours in the near term, and considerably more pessimistic for the longer run. He shares the basic European concerns about the size of the U.S. budget deficit and its alleged impact on U.S. interest rates (and in turn on the level of rates abroad). While his comments on the United States are low key and mixed in with prescriptions for other OECD countries, the note clearly focuses on the U.S. policy mix and the resulting high U.S. interest rates as the major factor in, and risk to, the OECD-wide economic recovery. His comments on most issues stem from an extreme Keynesian analytical framework.

On fiscal policy, Van Lennep says that there is no common prescription for how domestic fiscal policy should be moving in all the OECD countries, since they must depend "on the strength or the weakness of domestic demand. Where domestic demand is expected to be strong, reduced deficits may help to bring down interest rates by enough to offset the negative effects on income flows. But few member countries would seem to be in this position at the present time." Van Lennep's proposals for specific policy changes in the major countries could be summarized as follows:

- United States: Reduce budget deficit as fast as possible in order to resolve conflict between monetary and fiscal policy. If monetary authorities can find any way of expanding faster without inflaming inflation expectations, this is also desirable. Budget deficit is not yet an urgent problem overriding all other policy issues, but will soon become so on present budget submissions.
- Japan: Stimulate the economy with larger budget deficits. This is viewed as positive through its direct impacts on domestic demand and trade balances, and also through its potential impact on Japanese interest rates and the yen exchange rate.
- Germany and Switzerland are also seen as having conquered their inflation problems and is now being ripe for stimulatory macroeconomic policies.
- In Italy and many other OECD countries, getting budget deficits down is seen as the top policy priority.
- The French are taken to task for inflationary policies which would worsen structural problems. Their budget situation is grouped with the U.S.: not yet of overriding urgency, but getting there.

The suggestions for Japanese economic policy are particularly irresponsible. The Japanese budget deficit is already quite large in relation to GNP -- currently in the range of 4-5 percent. The Japanese government is rightfully concerned at the size of the deficit, and is working to reduce it. It is a positive sign that the Japanese are not, in this paper, being accused of deliberately pursuing an undervalued yen. Evidence has not been produced that the Japanese are trying to rig their exchange rate. Many countries are concerned over their bilateral trade problems with Japan, but these problems should

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be addressed in the appropriate ways -- dismantling Japanese barriers to imports -- rather than by worsening a comparatively good set of macroeconomic policies.

We doubt the German government would agree that the time has come for active policies to stimulate domestic demand (especially through a larger deficit). And while we might agree with many of the comments on French economic policy, we doubt the government of France will.

Talking Points

1. There are some useful themes in the Secretary General's "differentiated approach." This should not be surprising since at some point the paper touches upon a wide range of goals or strategies for macroeconomic policy. The words are there -- fighting inflation, structural adjustment, supply-side measures, incentives -- but the spirit is not.

2. On the positive side, the Secretary General gives major emphasis to the need to overcome structural problems in the OECD economy and the ways in which economic policies pursued in the past have contributed to structural imbalances. For many countries fighting inflation is felt to be the top policy priority. These are themes we endorse.

3. However, the overall analytical approach and most of the specific policy prescriptions are difficult for the U.S. government to accept. We are not at all attracted to the "differentiated approach" which is clearly based on a concept of macroeconomic fine tuning, and of allowing short-term considerations to supersede a sound longer-term policy. The premise underlying this strategy is that persistent inflation, high inflation expectations, low profitability, and other "structural" difficulties are a problem only because they lessen the effectiveness of traditional demand management policies. It seems to search for ways of hastening the day when each country can try to pump up its economy through "stimulatory" policy measures. For some countries it suggests that time has already arrived.

4. In our view, this "differentiated strategy" has much in common with the "locomotive theory" of earlier years. Because it is now recognized that approach had adverse consequences for inflation, there is a recommendation that incomes policies and other intervention in the labor market be undertaken, as ways of minimizing the inflation-induced distortions of economic activity.

5. The Secretary General's view of the economic outlook for this year is more pessimistic than our own, and his view of the longer run is much too pessimistic. The overall assessment is that the U.S. policy mix and the resulting high real interest rates create major downside risks in the outlook. There is little hope expressed for a sustained and vigorous recovery, either in the U.S. or other countries. The authors of the paper apparently believe that the only way to keep recovery going is to continually follow stimulative demand management policies. We think this is wrong.

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6. On the contrary, we believe there is a general policy prescription which is applicable to all of the OECD economies. Our prescription proceeds, not from a confidence in fine-tuning and activist macroeconomic policy, but from the belief that a sustainable recovery can only occur in a non-inflationary environment, and must be based on private market activity. A non-inflationary long-run approach to economic policy must be predicated on monetary discipline, budgetary discipline, and non-interference with free markets.

7. There is a perceived conflict in some quarters between a country's most immediate and urgent goals, and a sound long-run policy. This perception is erroneous. In fact, there is a great danger in continuous subordination of sound longer-term policies to attempt to address short-term objectives -- and our experiences of the last decade bear witness to this. Policies which attempt to preserve jobs by putting off structural adjustment, have only led to more inflation and more unemployment. Inflation and real growth are ultimately incompatible.

8. Diverging economic policies and performance have been a major source of the current international economic problems. Strains are particularly noteworthy when some nations are willing to tolerate high inflation while others are following policies for price stability. Those with inflationary policies must face the exchange rate and balance of payments consequences of that choice. To the extent they are unwilling to do so, they are led to respond with capital controls, import restrictions, and exchange market intervention. Distortions to international trade and capital flows grow, as do pressures on other nations to adopt accommodative policies.

9. These strains reflect attempts to deal with the symptoms of incorrect policies rather than to correct the underlying problems. The answer to exchange market turbulence and balance of payments problems is sound non-inflationary economic policy and structural adjustment, not exchange market intervention or protectionism. Greater convergence on sound long-term policies would remove this source of strain on the system.

10. Moving back to the specifics of the Secretary General's proposal for a moment, we would object to most of his description of U.S. policies, and of the policies of several other countries. We suspect that many other countries would also disagree with the way their economic situation is described here. Quite clearly, the U.S. budget deficit is too large. We are working hard to break the budget impasse between the Administration and the Congress. But we are not going to change our overall policy approach. Getting deficits under control is important, given the impact the current situation is having on market behavior. But so is reducing the size of the public sector in relation to GNP. And so is a strong defense. In any event, we would certainly reject any suggestion that money growth should be faster.

11. The Secretary General also expresses concern over the longer-run impact of weak oil prices. We view the current period of slack in oil markets as a welcome development, and as a reflection

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of the proper workings of market forces. Additionally, much of the Secretary General's concern seems to stem from the judgment that weak world oil demand is largely a cyclical phenomenon. Our own judgment is that there are long-term adjustments underway, and that these adjustments will be continuing for many years into the future, even if there were no further increases in real oil prices.

12. In summary, this paper should be thoroughly redrafted to place major emphasis on the need for a common approach to macroeconomic policy. This approach would give top priority to fighting inflation, and would be designed to create a stable policy environment in which private economic activity could flourish and create new employment opportunities. This common long-term approach should be based on monetary discipline, budgetary discipline, and non-interference with market mechanisms.

13. The approach outlined in this draft macroeconomic policy paper is clearly unacceptable. Were it to form the basis of the macroeconomic section of the OECD Ministerial Communique, we would have to oppose it.

(If the communique draft has been released by April 26 and reflects the same approach as the Secretary-General's note, this text should be used in commenting on it.)

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THE WHITE HOUSE
WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

DATE: 4/30/82 NUMBER: 068923CA DUE BY: ----
SUBJECT: CABINET COUNCIL ON ECONOMIC AFFAIRS -- May 3 Meeting (#2)

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input type="checkbox"/>	<input type="checkbox"/>	Clark	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	<input type="checkbox"/>	Darman (<i>For WH Staffing</i>)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>	Harper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	Gray	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>			
<u>CIA</u>	<input type="checkbox"/>	<input type="checkbox"/>			
UN	<input type="checkbox"/>	<input type="checkbox"/>			
USTR	<input type="checkbox"/>	<input type="checkbox"/>			
<hr/>			CCCT/Kass	<input type="checkbox"/>	<input type="checkbox"/>
CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CEQ	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

The Cabinet Council on Economic Affairs will meet with the President on Monday, May 3, at 11:15 AM in the Cabinet Room. The agenda for that meeting is the Constitutional Balanced Budget Amendment/CM219. The related paper was circulated to you in advance of the April 20 CCEA meeting with the President (068904CA). No additional papers will be distributed in advance of Monday's meeting.

NOTE: ATTENDANCE AT THE MAY 3 CCEA MEETING WILL BE LIMITED TO PRINCIPALS ONLY.

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☐ Becky Norton Dunlop
Director, Office of
Cabinet Affairs
456-2800

THE WHITE HOUSE
WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

May 3, 1982

11:15 a.m.

The Cabinet Room

AGENDA

1. Balanced Budget-Tax Limitation Constitutional Amendment (CM#219)